



# LAND ACQUISITION AND GROWTH: A NEW PERSPECTIVE

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## ABSTRACT

Arthur Lewis, in 1954, gave a widely accepted theory, which envisaged economic growth as a process resulting from transfer of labor from low productivity agricultural sector to high productivity industrial sector. While his theory emphasized on the role of labor, this structural change of economy also calls for a change in pattern of land use. This very theoretical framework is rooted in debates around the need for acquisition of land for industries. In Post-liberalization era, state is playing a pro-active role in private acquisition. State's role as a facilitator in land acquisition drives for industrial purpose, however, calls for an investigation. In our paper, we will investigate the nature and the scope of acquisition carried by state for industries. While doing that, we try to answer whether land acquisition, as a policy tool for industries, is justified or not. We conclude that, in theory, land acquisition by state may work better than private market transactions to acquire land for industrial use. Yet, the way it had been carried out, in the past, makes it a matter of concern. The long-standing new land acquisition bill in parliament must address some of these concerns.

**KEYWORDS:** Land Acquisition; economic growth; agriculture; industry; state intervention, Lewis Model; Coase Theorem.

## 1. INTRODUCTION

The constraint for economic growth was always thought to be the quantum of physical capital. Lewis model (1954) talked about capital accumulation as a stimulator of growth. Later Lucas (1988) switched attention to investment in human capital. None of the theories looked, however, at land constraint as an important factor for growth because land was simply assumed abundant. This seems to be a misplaced assumption. The theoretical framework of Lewis can be extended further to reiterate the importance of diverting land for industrial use. The process of transfer of labor from agriculture to industry cannot be complete without transferring land for industrial use. Violent outbreaks in different parts of country over land confrontations has brought to fore the need to address the issue of land use by industries (Morris and Pandey, 2007). There are many relevant issues regarding the nature and scope of such acquisitions. The new land acquisition bill, which has long been standing in parliament, to repeal the older 1894 act, underscores the relevance of this topic. We will raise three critical issues in our paper. First, we will explore the nexus and so called trade-off between agricultural and industrial sector, resulting from the acquisition of agricultural land for industrial purposes. Second, we will compare acquisition by state with other alternatives of obtaining land for industries. Lastly, we will nail down the specific concerns resulting from the execution of such policies and the trend of industrialization it promotes.

## 2. AGRICULTURE-INDUSTRY NEXUS AND TRADE OFF

Proponents of industrialization point that agricultural productivity will increase as a part of land is diverted away from agriculture. The argument put forth is that as the pressure on agricultural land declines, average landholding will increase. Increase in average landholding will help consolidate fragmented pieces of land, making it easier to use modern techniques (Sarkar, 2007). This argument however can be justified only if agricultural workers can be gainfully employed in industry. Lewis model, which is often extrapolated, to provide a rationale for diversion of land can be validated, only if workers can make a successful transition from agriculture to industry. Prabhat Patnaik (2007) asserts that there has not been absorption of the dispossessed in the industrial sector even if one makes note of downstream employment generated by coming up of industries. This he attributes to series of technological improvements that are undertaken consequently by the set up industrial plant. This will imply, jobs in industry cannot be secured by the dispossessed and unemployment situation will perpetuate. Whatever meager addition to jobs happen, will largely be restricted to informal sector. However, this concern should not be confounded with overall structural constraint gripping Indian economy in which agriculture continues to reign high in terms of share of employment. The employment issue in part can be addressed if we do away with unscrupulous bias against public sector. Industrialization brought under the aegis of public sector may create conducive employment situation, if public sector enterprises commit to do so.

## 3. MARKET TRANSACTION ON LAND VIS A VIS LAND ACQUISITION BY STATE

The point we want to put forth is that, India has already treaded on the trajectory of industrialization for growth. Her output structure has diversified away from agriculture. Therefore merely comparing performance statistics of two sectors will not serve any purpose. If industry substantially corresponds to output, then

simply blocking further diversion of land to industry cannot be the solution. If land requirement for industries is an indispensable by-product of the trajectory we are moving along, then the relevant enquiry boils down to only choosing a suitable method of obtaining land. Free market and land acquisition by states are two methods which are often pitted against each other.

The believers of free market argue that conflict over land acquisition can be resolved in logic of market. Those who swear by working of free market transaction tout such transaction in land as free and fair. The Coase theorem is used for justifying the absence of state intervention, strengthening market rationality. Coase theorem elucidates that mere bargaining between parties will lead to efficient outcome without any government intervention. It is a theory which reinstates market efficiency (Sarkar, 2011.)

However, we believe these arguments defy the underlying assumptions of market working. For one, the stakeholders involved in land transaction are not equal in terms of their socioeconomic positions. There is a corporate giant with vast resources and farmer with relatively meager interpersonal network and resource, involved in such private transactions. Second, Coase theorem is invalidated when there is high transaction cost. In India, agricultural land of farmers is often fragmented. This straight away shoots up the transaction cost for firms if they are to negotiate with farmers directly under market conditions. Thus, market efficiency implied by Coase is not necessarily validated since the underlying assumptions do not hold.

Let us now consider the merits of acquisition by state. If there are large number of parties involved, eminent domain, referring to the power of state to seize private land without seeking consent, may save considerable cost of holding out. Holding out is phenomenon where the stakeholder as a token of protest refuse to sell their shares of land. The sizeable reduction in cost makes eminent domain a more efficient outcome Vis a Vis free market purchases (Singh, 2012).

Free market apologists further argue that market transactions correctly reveals the true valuation of the owners, since it is a voluntary transaction. This ensures that effectively purchase occurs only when individual valuation of the owners outweighs the cost. They argue that government intervention involves compulsory acquisition, bereft, of any voluntary element. Therefore, they pitch in strong arguments against obscuring of true valuation in land acquisition strategy.

Let us examine the case of free market apologist critically. Their exposition is that government intervention lacks voluntary decision. If one looks at the violent outbreaks against land acquisition in different parts of country, their argument seems to stand even firmer. However, we the notion that market transaction necessarily reflects free will is an exaggeration. Even in market transaction there is plenty scope for private players (owing to their socioeconomic position) to compel the stake holders (farmers, peasants) to succumb involuntary. Further LARR (land acquisition bill currently in draft) sanctions that a minimum 70% consent is required before acquisition. Thus, land acquisition need not always be a coercive measure. On the other hand having compulsory state's intervention may act as a catalyst for negotiating, protecting the interests of the stakeholders, in case, the state is committed to do so.

There are also alternative models which have suggested a middle ground combining eminent domain and free market transaction. The auction model is explained by Singh (2012). His model starts with the assumption that there are  $n$  contiguous acres of land to be acquired. The  $n$  acres of intervened land core and the rest is termed as periphery. Each farmer is supposed to submit a sealed bid. The  $n$  acres with the lowest bid are purchased at uniform price. Purchase price becomes the auction price and it becomes equal to  $n+1$ th bid when bids are arranged in ascending order. Further  $n-c$  remain acres that remain unsold are transferred to periphery. This method has an element of eminent domain as there is a prescribed reserve price which is determined in a way that if auction the price is greater than the reserve price, the entire acquisition exercise is abandoned. To summarize, the method meshes together the voluntary feature of free market and the government determined reserve price feature of eminent domain. This mechanism however is not suitable once the owners are reluctant to accept re-distributed land in periphery or otherwise. This is not an unlikely scenario because each owner is bound to have different preferences for different parcels of land.

Given the imperfection of this complex model, the choice again boils down to free market versus eminent domain again. As we attempted to explain in previous passages, Land acquisition as a policy tool may work better than free purchase negotiations. This is not to say that its effectiveness as a policy tool always translates into effective actual working, as, we discuss in the next section.

#### 4. CONCERNS WITH THE WAY STATE HAS BEEN ACQUIRING LAND

While states seem to be doting on big capital, by acquiring land for purpose of creation of special economic zones (SEZs), the heavy burden on the exchequer manifests itself into reduction in the expenditure on key social sectors. Health and education sector have been seriously undermined. This may take a toll on HDI ranking of the states. If development is a comprehensive concept, this lopsided approach to promote zones needs examination.

There is another tendency which the zones promote. These zones have aggravated competition among states (Roy, 2010). But this competition is not on pretext of overall development but rather to offer intensive benefits to industries in a race to bottom. We term this struggle among states as a race to bottom because of a primary reason. This stems from the fact that if states engage in expensive game of attracting investment by bidding subsidies, then states will lose all bargaining power vis-à-vis the corporate giants. Firms may simply threaten to switch from one state to another if the Memorandum of understanding does not conform to its demands. One manifestation of this lost bargaining ground is that state cannot push industrialist for its preferred site of location. Other manifestation is that states lose the right of punishing the firm in case of non-performance. Given the competitive struggle can push states to complete non-action scenario, center has to play a role in ensuring states do not engage in unhealthy competition.

Roy (2010) emphasizes in his paper, politicization of the process is a legitimate tool only if creates voice for the marginalized. Very often, however, execution of land acquisition reduces state to a mere facilitator of corporate's interest. Important arm of the state- the legislature and the executive, sometimes align with the industrialist to corner the interests of the marginalized. Legislature has bent the laws in past for industrialist by violating laws for showering special benefits to corporates (Mining Group People Solidarity Group, 2010). Executive too has failed to live up to its role in the past. The Executive has to ensure there is no compromise on working condition of the labor in the zones because labor laws do not apply to these zones. It has clearly shirked from this role by letting the abysmal worker conditions prevail in the zones. Executive also created scope for undue favors to be realized by industrialists. Environmental clearances granted at an unbelievable pace is one example of such favors (Mining Group People Solidarity Group, 2010).

#### 5. CONCLUSION

To sum up, land acquisition by state could be a reasonable policy tool for development of our economy. Yet, in the last section, we expounded on how execution failures weigh down its effectiveness. This result needs to be contemplated further. In other words, one must try to locate the underlying reasons for policy failure of land acquisition in the past. In a country like India with a numerous stakeholders with conflicting interests, state may find it challenging to balance various stakes and at the same time address development needs.

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